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Volvo Expands Russian Truck Plant Amid Market Slump

By Alexander Panin

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As a falling ruble and stagnant economy continue to drive down truck sales in Russia, Swedish auto manufacturer Volvo last week expanded its truck facility to include cabin production in hopes of a market revival.

Volvo Trucks Russia now has a facility that at full capacity will be capable of assembling 15,000 heavy truck cabins a year — five times the company's current truck sales. Volvo already assembles Volvo and Renault trucks at its plant in Kaluga, 180 kilometers southwest of Moscow, but had imported cabins and most other components.

The move comes as sales tumble for a second consecutive year, with Western sanctions on Moscow over Ukraine piling pressure on Russia's already staggering economy. Truck sales shrank by 15 percent last year, and are expected to sink at least a quarter this year, according

to analytical agency Autostat.

Volvo sales are falling faster than the market average. The company sold just over 3,000 trucks over the first 10 months of the year, down 37 percent compared with the same period last year, Autostat data show.

Yet company executives are optimistic: "This is a long-term investment, which we would not have made had we not believed in Russia. We still see great potential in the market here," Peter Andersson, managing director of Volvo Group Russia, told The Moscow Times at the cabin production opening ceremony in Kaluga.

Volvo has already outlived one Russian market slump — the company began truck assembly at the Kaluga plant during the 2009 economic crisis, when sales were at record lows, Andersson said.

But the decision to invest 90 million euros ($112 million) to expand production to include cabins was made in 2012, when truck sales in Russia exceeded 34,000, an all-time record high.

Since then the market has been declining steadily, and analysts do not predict a swift recovery.

"We expect a third year of falling heavy truck sales in 2015," said Alexander Pavlov, director of operations at FM Logistic, a warehouse and logistics service company.

Logistics operators expand their truck fleet when they see increasing cargo transport volumes, but with Russia struggling to avoid recession no one expects market growth, he added.

Autostat expects truck sales at Volvo's closest competitors to fall this year — Germany's MAN by 30 percent and Sweden's Scania by 5 percent.

Volvo is the only foreign truck maker to invest in local cabin production, and it has further plans to make gear boxes and axels in Russia. Volvo intends to locally produce 45 percent of the components of trucks sold in Russia by 2018, up from 15 percent now.

This way the company will meet the requirements to participate in state purchasing tenders, a promising future market, said Roman Petryaev, development director of Volvo Group plant in Kaluga. The government sets minimum local production requirements for its purchases to encourage domestic manufacturing.

The company also has plans to export Renault and Volvo trucks made in Kaluga to Belarus and Kazakhstan, which are joined in a Customs Union with Russia, Petryaev said.

For now, Volvo is ready to wait: "We will keep production down to one third of capacity and will expand output as the market revives," he said.

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